Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	CC Docket No. 96-45
Federal State Joint Board On	)	
Universal Service	)	

COMMENTS OF ALLTEL CORPORATION

ALLTEL Corporation, ("ALLTEL") hereby submits its comments in response to the Public Notice[1] through which the Federal-State Joint Board on Universal Service ("Joint Board") sought comment on various issues referred to it by the Commission[2] including, among other things: (1) whether the statutory definition of "rural telephone company" should be changed for universal service purposes; (2) whether support for rural carriers should be based on forward-looking costs rather than embedded costs; and (3) whether multiple study areas within a state operated under common ownership should be consolidated for purposes of universal service support. ALLTEL believes that the use of the current methodology to determine universal service support for rural carriers has provided the foundation through which the goals of Section 254 of the Act -- making affordable communications services available in sparsely populated areas – have largely been achieved. The Joint Board must proceed cautiously as it again considers modifying the basis of support for rural carriers to ensure that the historic success of universal service policy continues and that consumers in rural areas continue to receive high quality services and technology choices at affordable prices.

[1] *In the Matter of Federal-State Joint Board on Universal Service Seeks Comment on certain of the Commission's Rules relating to High-Cost Universal Service,* CC Docket No. 96-45, FCC 04J-2 (released August 16, 2004) ("Notice")

I. Consolidation of Study Areas

The Joint Board seeks comment on whether permitting commonly held companies to maintain multiple study areas in a state is inconsistent with the policies of the study area freeze. The Commission also seeks comments on whether calculating support at a study area level for carriers operating multiple study areas within a state capture cost savings that could be achieved from economies of scale.[3]

The Joint Board should maintain the current support calculations at a study area level. First, the fact that some carriers operate multiple study areas within a state is not inconsistent with the potential abuse the Commission sought to address through the study area freeze. The Commission froze existing study areas in 1984 "to ensure that LECs do not set up high cost exchanges within their *existing* service territories as separate study areas to maximize high cost support."[4] Neither the rule nor the underlying policy was premised in any concern over commonly held study areas that were the consequence of acquisitions and mergers.

The rural carriers operating multiple study areas in a state for which this prospective change is the gravest concern have not divided study areas between high cost and low cost exchanges, but rather obtained multiple study areas as a result of mergers and acquisitions.[5] It is clear that the policies of the study area freeze are not inconsistent in this case and should not be a factor in deciding whether to consolidate study areas for purposes of calculating universal

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[2] *In the Matter of Federal-State Joint Board on Universal Service, Order,* CC docket No. 96-45, FCC 04-125 (released June 28, 2004).

[3] Notice at ¶12.

[4] *In the Matter of ALLTEL Service Corporation on behalf of ALLTEL Carolina, Inc., Heins Telephone Co. and Sandhill Telephone Company Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary, of the Commission's Rules,* 10 FCC. Rcd. 1607, DA 94-1569 (released December 22, 1984) at 1607.

[5] For example, ALLTEL operates six study areas in the state of Georgia. ALLTEL initially operated one study area, then acquired two study areas from the former GTE and later acquires three additional study areas from rural telephone companies.

service support. There is no abuse under the freeze; rather, the status quo upon which the viability of the merger or acquisition was evaluated is simply maintained. ALLTEL notes that the economic efficiencies of mergers typically serve as one of the major policy justifications for any required grant of FCC authority, and as shown below, those efficiencies are already accounted for through lower loop costs.

Further, the Joint Board should refrain from consolidating study areas due to the impact such a decision could have on local rates. Local rates have been developed taking into consideration the amount of federal universal service support received by each study area. In the context of a merger or acquisition, the acquiring company maintains the local rates of the acquired study area and therefore its universal service support should also remain unchanged. Should the Joint Board determine to consolidate study areas, affected carriers would need to revise local rates as a result of changes in universal service support. Indeed, preliminary modeling of the impact on ALLTEL's operations in the state of Georgia alone includes a substantial reduction in support that ultimately would have to be recovered from subscribers – even without consideration of any further rate increases that might result from the various proposals for intercarrier compensation reform. The Joint Board must ensure that a mechanism to revise local rates is in place for carriers receiving less or no support resulting from study area consolidations.

The Joint Board has voiced a concern that calculating support at a study area level when carriers operate multiple study areas in a state may not reflect all the efficiencies from economies of scale. ALLTEL reiterates that acquisitions are the primary reason for this anomaly, and therefore economies of scale are often not realized where the study areas in question are not contiguous and serve different portions of the state. Further, to the extent these study areas remain independent for purposes other than universal service support calculations, it is doubtful that administrative savings would be realized because these carriers would continue to develop rates, perform cost studies and file reports at a study area level. Finally, to the extent any efficiencies from economies of scale are achieved by carriers operating multiple (but geographically non-contiguous) study areas in a state, those efficiencies should already be reflected in lower costs per loop which would decrease or eliminate high cost loop support as the national average continues to rise. Because these efficiencies are speculative at best, and to the extent they exist are already reflected in the cost per loop calculations, ALLTEL urges the Joint Board to continue calculating support at a study area level without requiring multiple study areas maintained within a state to be consolidated.

II. Redefinition of Rural Telephone Company

The Commission seeks comment on whether it should continue using the statutory definition of "rural telephone company" to determine which carriers will be deemed rural for purposes of high cost universal service support.[6] The Commission further asks which of the four subparts of the definition best serves as the profile of companies with fewer subscribers over more sparsely populated areas and therefore operate without the benefit of the economies of scale possessed by traditional non-rural companies.[7]

The Commission should continue to apply the statutory definition of "rural telephone company" to determine which carriers will be considered rural for purposes of universal service support. The Joint Board must take into account a variety of factors – including congressional intent -- rather than making that determination solely on the basis of the number of access lines served. Congress recognized that rural companies are not all alike and established several

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[6] Notice at ¶8.

subparts to the definition of "rural telephone company" to ensure that all carriers serving less populated areas and, consequently, higher costs areas, would benefit from a definition that was applied consistently throughout the entire statute and beyond the narrow exemptions set forth in §251 of the Act. Section 3 of the Act provides the definitions for the Act as a whole; and while Section 254 governing the Joint Board's authority does not explicitly reference the term "rural telephone companies" ALLTEL is constrained to note that the Joint Board's authority to make recommendations under Section 254 is inexorably tied to Section 214(e)[8] governing the provision of universal service by eligible telecommunications carriers ("ETCs") entitled to receive support. Section 214(e) affords "rural telephone companies" – as defined at Section 3(27) -- heightened protections. It would be inconsistent with the larger statutory scheme of the Act for the Joint Board to conclude that Congress intended on the one hand, as a matter of definition, to protect the territories of rural telephone companies against the dilution of subscribership and support, while, on the other hand, permitting these same carriers to be deprived of support through the use of a definition that departed from Section 3(27). The Joint Board previously chose to utilize the statutory definition and should continue to do so in order to preserve a rational and consistent construction of both Section 254 and Section 214.

In the event the Joint Board concludes that it must change the definition of "rural telephone company," ALLTEL submits that access line counts alone do not adequately predict costs. Study areas served by rural carriers are often non-contiguous and consequently retain the high loop costs of a stand-alone territory regardless of the number of lines served. Access line counts coupled with line density metrics are more likely to be better predictors of costs. Non-rural carriers can achieve economies of scale not only because they serve a larger number of

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[7] Id.

access lines, but because they serve highly populated and urbanized areas, i.e. high density areas, that result in lower loop lengths and therefore lower loop costs. The Joint Board could add density parameters to the definition of "rural telephone company" if its real goal is to limit rural status to companies that may benefit from economies of scale and scope. ALLTEL notes that, to the extent a rural study area has economies of scale (i.e. it has a large number of lines in relatively dense areas) its loop costs are not likely to exceed 115% of the national average cost per loop and the carrier will not qualify for any high cost loop support in the first instance.[9]

ALLTEL submits that the existing support mechanism already takes into account economies of scale and scope, because rural study areas benefiting from economies of scale and scope will not meet the existing qualifications for high cost loop support. Therefore, the Joint Board should not alter the definition of "rural telephone company" but rather follow the structure of the Act as a whole and retain the mirroring of the definition contained in Section 3(27). Ultimately, it would not be in the public interest to narrow the definition of "rural telephone company" and limit qualification to companies essentially serving less than 100,000 access lines without taking into consideration the carrier's cost characteristics and population density of the service territory. The goals of Section 254 would not be served by requiring subscribers in high cost areas to meet ever increasing portions of the true cost of their service by depriving carriers serving those areas of universal service support simply through definitional artifice.

III. <u>Basis of Support</u>

The Commission seeks comment on whether rural universal service support should transition from embedded costs to a forward-looking cost mechanism. In 2001 the Commission

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[8] See 47 USC Sec. 254(a)(1)

[9] For example, ALLTEL subsidiary, GA Communications, serves over 200,000 lines that are distributed throughout the state and receives high cost loop support while ALLTEL's operations in NY State and Sugarland, Texas have

acknowledged that it did not have sufficient information to develop a forward-looking model that could be used to calculate support for rural carriers and continued to use embedded costs to determine rural high-cost support. The Commission seeks comment on whether it is possible now to design a forward-looking model that could accurately estimate costs for rural carriers or whether it should retain an embedded cost mechanism.[10]

The Commission should not use a forward-looking model to calculate support for rural carriers until it has been thoroughly tested and ample opportunity to review and comment on the inputs, algorithms and other factors has been afforded all affected parties. The Rural Task Force ("RTF") provided evidence that the current forward-looking model does not estimate the cost of rural networks accurately and therefore should not be used to calculate high-cost loop support for rural carriers. The current model, according to the RTF, underestimated lines, overestimated aerial and underground plant, underestimated central office equipment switching investment, underestimated network operations and customer operations. Lack of economies of scale, according to the RTF, are the likely reasons for these incorrect results.[11] Nothing has changed since the RTF Recommendation and the existing forward-looking model has not been revised since its adoption in 1999. With the exception of access line counts, none of the inputs or algorithms have been revised. It is almost certain that the current forward-looking model will not estimate rural network costs accurately and is likely to suffer from the flaws already exposed by the RTF.

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populations that are more dense, lower loop costs and which consequently, do not qualify for high cost loop support even though in the aggregate they serve fewer access lines than GA Communications.

[10] Notice at ¶20.

[11] *In the Matter of Federal-State Joint Board on Universal Service,* Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service, CC Docket No. 96-45 (released September 29,2000) at pp. 17-18.

Despite the lack of existence of a forward-looking model that can estimate rural carriers' costs, should the Commission decide to embark in such a quest, it must also address the methodology to be used to calculate high cost support. The non-rural methodology compares a state average cost per loop to a national average rather than a study area's specific costs to a national average. The RTF showed that applying the non-rural methodology to rural carriers resulted in a decrease in support of $1.1 billion to rural carriers.[12] According to the RTF, the main reason for this significant reduction in support is the comparison of state averages to the national average.[13] This is not surprising considering that rural carriers serve only 8% of access lines.[14] Because the larger carrier have significant economies of scale and scope, rural carriers have little or no impact at all on the state average, resulting in significant losses in universal service support.

The RTF showed that prior to the introduction of the Synthesis Model, non-rural carriers in 20 states were receiving support, yet only 8 states were eligible for support once transitioned to a forward-looking mechanism.[15] For rural carriers the impact is devastating. Under the existing methodology 52 states and territories are eligible for support but only 16 states would be eligible for high cost support under non-rural guidelines.[16] These results clearly violate the sufficiency requirements set forth in section 254 of the Act.

In the event the Joint Board concludes that rural carrier high cost support is to be determined based on forward-looking support, ALLTEL urges the Commission to carefully

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[12] *A Review of the FCC's Non-Rural Universal Service Fund Method and the Synthesis Model for Rural Telephone Companies,* Rural Task Force White Paper #4 (September 2000) at 6. ("RTF White Paper")

[13] Id. at 7.

[14] Id.

[15] Id. at 14.

[16] Id. at 16.

select the appropriate methodology to be used in determining universal service support for rural carriers. The costs of providing service to customers located in high cost areas will not change as a result of changes in how support is calculated. Unless the Joint Board selects the correct forward-looking model and the appropriate methodology to determine support for rural carriers, customers in rural and high cost areas will not benefit from the goals of the universal service program and most significantly, access to advanced services at rates comparable to those of their urban counterparts.

Furthermore, developing a forward-looking model for rural companies would be a lengthy and costly endeavor. Given the limited resources of the Commission and the carriers, it would be counterproductive to engage in a piece meal approach to solve the many issues surrounding universal service. Universal service reform must be comprehensive and go hand in hand with intercarrier compensation reform. Many of the proposed intercarrier compensation plans include universal service support that continue to be based on whether the carrier is rural or non-rural. Changing the definition of rural carriers will affect not only universal service revenues but also intercarrier compensation revenues to the detriment of rural subscribers.

IV. <u>Conclusion</u>

ALLTEL urges the Joint Board to proceed cautiously and through open public forums to fully assess the potential impacts of its proposals prior to submitting its recommendations to the Commission. In particular, ALLTEL believes that merging study areas under common ownership is ill-advised and potentially penalizes the carrier, who through acquisition, brings greater efficiencies to the provision of service in sparely populated areas and potentially the rural consumer through increased rates and diminished services. The Joint Board should continue to follow Congress' guidance as to the manner in which rural telephone companies are defined, and ensure that any forward looking model is properly vetted among interested parties so that it accurately represent the true costs of providing telecommunications services in rural areas.

Respectfully submitted,

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